

**IMPROVING MILITARY EDUCATIONAL BENEFITS:
EFFECTS ON COSTS, RECRUITING, AND RETENTION**

The Congress of the United States

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PREFACE

Since the close of World War II, educational benefits have been an important part of military compensation. Over that period, their chief purpose has evolved from one of assisting veterans whose educational plans were interrupted by the draft to one of attracting better-qualified recruits under a peacetime volunteer system. A desire to improve recruit quality further, and dissatisfaction with the program, has led to strong interest by the Congress and the defense community in more generous educational benefits. Indeed, 13 bills proposing more generous military educational benefits have already been introduced in the 97th Congress. At the same time, concern has arisen over potentially high costs of these plans and uncertainty as to their effects on recruiting and retention of military personnel. At the request of the House Committee on Armed Services, this study examines the key effects of alternative plans to improve military educational benefits. In accordance with the mandate of the Congressional Budget Office (CBO) to provide objective and impartial analysis, the paper offers no recommendations.

This study was prepared by Daniel Huck, Lorin Kusmin, and Edward Shephard under the general supervision of Robert Hale of CBO's National Security and International Affairs Division. Jerry Allen and Kathleen Loftus of the General Research Corporation designed the computer model used to prepare cost estimates. Edgar Peden, a CBO consultant, assisted in the design. The authors gratefully acknowledge the support provided by Lou Palos of the DoD's Defense Manpower Data Center and Joanne Crowe of the VA's Department of Veterans Benefits who prepared the Vietnam-era GI Bill utilization data base. The study benefited from helpful criticism of earlier drafts by David Grissmer and Richard Fernandez of the Rand Corporation and by CBO staff including John Enns, Neil Singer, Joel Slackman, Robert Vogel, Eileen Maguire, Michael Sullivan, Dorothy Amey, Nina Shepherd, and Maureen McLaughlin. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.) Francis Pierce edited the manuscript; Janet Stafford prepared it for publication.

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SUMMARY

Proposals have been made in recent years to offer more generous educational benefits as a means of improving military recruiting. Thirteen bills have been introduced so far in the 97th Congress proposing new educational benefit plans.

Interest in a new program stems from concern over declining recruit quality and also from dissatisfaction with the Veterans' Educational Assistance Program (VEAP), a less generous substitute for the Vietnam-era GI Bill. Advocates of a more generous educational benefit contend that its appeal to better-educated, higher-aptitude youth would significantly improve recruiting of high-quality personnel. Since interest in a new program began, recruiting has improved and VEAP has been strengthened. Nonetheless, the services--especially the Army--could still encounter problems attracting sufficient numbers of qualified youths in the 1980s, especially if personnel strengths are increased further to meet expanding defense requirements.

More generous educational benefits might improve recruiting and provide a hedge against future problems. This study finds that improved benefits would increase the enlistment of better-qualified recruits in the Army--the service likely to experience the most difficulties--by up to 15 percent, depending on the option considered. But earned educational benefits also provide servicemembers an incentive to leave in order to use their benefits. Ultimately such separations might offset, in part or in whole, the gains in recruiting. This should be a key concern in evaluating educational benefits.

While they might improve recruiting, additional benefits would, of course, result eventually in higher budgetary outlays--by up to \$1.4 billion a year, depending on the option. (Costs are in constant 1983 dollars and assume the benefits are indexed to keep pace with inflation.) Lower costs generally result when these plans "target" or direct their benefits primarily to groups of recruits that are in short supply. Thus the degree of targeting is another key issue.

Improved educational incentives are, of course, not the only way to enhance recruiting. Pay raises for all military personnel

can be used, though such raises are generally more costly per added high-quality recruit than improved educational incentives. On the other hand, increasing the number of recruiters and offering more enlistment bonuses might cost less per added recruit than would many types of improved educational incentives. Thus the design of any new educational benefits may be the key in determining whether such benefits are a cost-effective way to improve recruiting.

THE NEED FOR A NEW MILITARY EDUCATIONAL BENEFIT

The need for a more generous educational benefit depends largely on how well the services can meet future enlisted recruiting requirements with their present programs. A look at past recruiting trends and present projections may prove helpful.

Recruiting Deteriorated From 1977 Through 1980 but Improved in 1981

A marked decline in recruit quality occurred after the Vietnam-era GI Bill was terminated for new recruits on December 31, 1976. In fiscal years 1976-1979, enlistments of high-quality male recruits--those with high school diplomas and above-average test scores--fell by over 40 percent. Yet, factors other than termination of the GI Bill may largely account for this decline. The policy decisions of the late 1970s hurt recruiting by keeping military pay raises below increases for comparable workers in the civilian sector. So did the reduction in real spending for recruiting and advertising, together with an upturn in the job market.

Whatever the causes, about half of this enlistment decline had been restored by the close of fiscal year 1981. A large share of this improvement is accounted for by substantial pay raises, more resources allocated to recruiting, increasing unemployment, and expanded use of a more generous VEAP.

Future Trends Look Favorable

Future recruiting trends also look favorable. CBO's baseline recruiting projections (see Summary Table 1) suggest that each of the services should be able to meet its goals for numbers of recruits while also meeting or exceeding the minimum quality

SUMMARY TABLE 1. CBO'S BASELINE PROJECTION OF NEW MALE RECRUITS HOLDING HIGH SCHOOL DIPLOMAS, 1983-1987 (By fiscal year, in percents)

	Draft-Era Actual 1966-1970	Actual			Estimated 1982 a/	Projection				
		1979	1980	1981		1983	1984	1985	1986	1987
Army	72	59	49	78	66 <u>b/</u>	72	68	70	69	68
Navy	78	73	74	74	72	72 <u>c/</u>	89	84	84	84
Marine Corps	61	71	76	78	76	84	85	88	87	87
Air Force	92	84	84	89	91	79 <u>c/</u>	96	93	92	88

NOTE: Projection assumes: 1981 high-quality supply level, adjusted for changes in unemployment and population; Congressionally mandated test category IV constraints satisfied; constant (fiscal year 1983) enlisted end-strengths; no limits on career force growth; and annual comparability pay raises.

a/ Annualized rate based on results for the first quarter of 1982.

b/ The drop in the Army high school graduate percent when compared to 1981 results can be attributed to the self-imposed limits (more stringent than in current law) on test category IV high school graduates. When the Army enlisted 78 percent of its male recruits as high school graduates in 1981, its male and female test category IV proportion amounted to 31 percent. During the first quarter of fiscal year 1982, the category IV proportion dropped to about 18 percent.

c/ The larger enlisted strengths requested by the Administration in this fiscal year raise recruiting requirements and thus lower the percentages substantially below those in the remainder of the projection period.

standards mandated by the Congress. (The projection uses as a measure of recruit quality the percentage of male recruits without previous military service who hold high school diplomas. In 1982, the Congress required that this percentage be at least 65, and this minimum may be extended in future years. The Congress also mandated limits on the percentages of recruits who score low on the entrance test; these limits are assumed in the projection.)

While the baseline projection compares favorably to recent experience and to experience in the Vietnam-era draft period, it masks certain underlying trends that run counter to each other. On the one hand, recruiting should be made more difficult by the expected decline in the youth population and a more favorable job market. On the other hand, increases in the number of career personnel should tend to reduce the need for recruits. The projection also assumes a continuation of the favorable 1981 recruiting trend and of the service manpower levels requested by the Administration for fiscal year 1983. Finally, it assumes that military pay raises will remain comparable to those in the private sector.

Additional Incentives May Still Be Needed As a Hedge

Despite the favorable forecast, a number of factors could jeopardize the attainment of future recruiting goals, especially in the Army. Pressure for larger numbers of persons in the military and an improved economy could play a role in making recruiting more difficult. So too could limits on numbers of career personnel the services will accept, since such limits could drive up recruiting requirements. Moreover, the Army, which historically has the lowest proportion of recruits holding high school diplomas among the four services, contends that increases in weapons technology and more sophisticated battlefield tactics demand that the quality composition of its recruits be on a par with the other services. CBO's baseline projection shows the Army's percentages of high school graduates lagging behind the other services by at least 15 percentage points.

Thus, the Congress may wish to improve recruit incentives, especially in the Army, as a hedge against further recruiting difficulties or in recognition of the Army's contention that it needs even better recruit quality. Improved educational benefits could be a means of further enhancing recruit quality and ensuring against possible shortfalls.

PROPOSALS FOR A NEW PROGRAM:
ISSUES AND OPTIONS TO CONSIDER

In considering alternative proposals for more generous educational benefits, several major concerns arise: the long-run cost of a program, its effectiveness as a recruiting incentive, and the extent to which it may prove counterproductive by inducing persons to leave the military to take advantage of educational benefits. The four options described in this report explore these issues by amending the current program with progressively more generous features similar to those contained in the numerous legislative proposals. (Summary Table 2 provides details of each option.) While all the services could benefit, the report concentrates on the effect the proposals would have on Army recruiting, where the problems are apparently more pressing. The benefit levels are assumed to be increased or "indexed" to keep pace with inflation, since otherwise their value as a recruiting incentive would be gradually eroded. (The Congress frequently raised benefit levels under the Vietnam-era GI Bill.)

Option I. Continue Current VEAP With "Kickers"

This option would continue the current VEAP for fiscal year 1983 and beyond. The basic contributory VEAP would remain available for all services. Under this program, servicemembers could choose to contribute between \$25 and \$100 a month of their basic pay, up to a total of \$2,700; DoD would match contributions on a two-for-one basis. In addition, only the Army would continue to offer a \$12,000 supplemental payment ("kicker") to basic VEAP for high school graduates with above-average test scores who enlist into selected skills. This kicker (called Ultra-VEAP) would be more generous than the amount available in 1981, when most kickers ranged between \$2,000 and \$6,000.

CBO estimates that the annual cost of this program (in constant fiscal year 1983 dollars) would eventually reach \$139 million beyond the year 2000 (see Summary Table 3). Moreover, CBO estimates that continuation of the current program (Ultra-VEAP) would increase Army high-quality enlistment supply by between 2 and 6 percent over what would result from continuing VEAP kicker payments at 1981 levels. Yet, once servicemembers earn the benefit, it could also increase separations as persons leave the military to take advantage of their benefits. Once the increased turnover is taken into account, net improvement in Army high-quality recruiting ranges between about 0 and 4 percent (see Summary Table 3).

SUMMARY TABLE 2. EDUCATIONAL BENEFIT OPTIONS

Option	Program Design Features	Maximum Accumulated Benefit Paid by DoD <u>a/</u> (dollars)	Anticipated Monthly Stipend for Full-Time School Attendance (dollars)
I.	Contributory VEAP	DoD contributes \$2 for each \$1 a servicemember contributes. Maximum accumulation pays out \$225 monthly for 36 months' schooling.	5,400 <u>b/</u> 150 <u>c/</u>
	With kickers (current policy)	Adds \$12,000 DoD contribution for Army high school graduate test category I-III A enlistments for 36 months' contributions.	17,400 <u>b/</u> 510 <u>c/</u>
II.	Non con- tributory Plan	Each month's service provides one month's benefit at \$225. Maximum 36 months.	8,100 225
	With supplemental	Supplemental equivalent to kicker in Option I	20,100 560
III.	Two-tier Noncon- tributory Plan	Same as Option II, except completion of six years' service doubles value of 36 months' basic benefit.	16,200 225/450
	With supplemental	Same as Option II.	28,200 560/785
IV.	Two-tier Noncon- tributory Plan With Benefit Transfer	Same as Option III, except ten years' service allows expenditure of earned benefit by spouse and college-age children. Must remain on active duty (or retire) during transfer.	16,200 225/450
	With supplemental	Same as Option II.	28,200 560/785

a/ By comparison, the Vietnam-era GI Bill now provides a maximum earned benefit of about \$18,300 (for the typical veteran with one dependent).

b/ Figures shown exclude \$2,700 that must be contributed by plan participant to accumulate maximum benefit.

c/ Assumes member contributes \$50 monthly for 20 months, and receives two-for-one matching funds from DoD, plus supplemental benefits if applicable. This represents the typical amount and length of participation by VEAP participants to date.

SUMMARY TABLE 3. EFFECTS ON COSTS, RECRUITING, AND RETENTION a/

Option	Annual DoD Steady-State Costs <u>b/</u> (In constant 1983 dollars)	Percentage Increase in High-Quality Accessions		Less the Percentage Change in High-Quality Recruiting Requirements <u>c/</u>	Net Percentage Change in High-Quality Recruiting	
		Low	High		Low	High
Option I. Contributory VEAP	139	2	6	2	0	4
Option II. Noncontributory Plan	720	3	11	5	-2	6
Option III. Two-Tier Non- contributory Plan	1,093	3	12	5	-2	7
Option IV. Two-Tier Non- contributory Plan With Benefit Transfer	1,417	4	14	0	4	14

a/ Estimates take into account the effect of the Army VEAP "kicker" program (less generous than Option I) available in fiscal year 1981 and thus show the net percentage improvement in Army high-quality recruiting when the options (with supplemental) are chosen as a substitute.

b/ Figures represent total costs for all services (enlisted and officer), but assume only Army high-quality recruits receive "kicker" or supplemental payments. Steady-state conditions, where maximum annual outlays are reached, occur in 1996 for Option II, 1999 for Option III and Option IV, and beyond the year 2000 for Option I. All estimates assume annual adjustment in benefit amounts commensurate with the rate of inflation.

c/ These figures represent the increased high-quality recruiting requirement necessary to offset the additional high-quality separations attributed to implementation of the option (with supplemental).

Thus, Option I is a relatively inexpensive program that could provide a modest improvement in Army recruiting. A modest improvement may be all that is needed, if CBO's baseline recruiting projections prove correct. Option I also represents a more cost-effective program than the other options; its cost per added high-quality recruit is less than half that of the other three options.

Option I would not, however, provide the substantial improvement in recruiting that could be needed if, for example, Army personnel strengths were to increase sharply. Moreover, this program might be open to some of the criticisms raised against the older version of VEAP implemented in 1977, including low participation and inequity. Most of this criticism would focus on the requirements under Option I that servicemembers contribute to the program.

Option II. Offer a Noncontributory Basic Benefit
With Supplemental Payments

Some critics contend that the contributory requirement of VEAP makes it difficult for lower-paid persons to participate. One response would be to institute a noncontributory program. Under this option, DoD would provide a benefit payable at \$225 monthly for each month of military service, up to a maximum of 36 months. This would provide a maximum benefit equal to that under Option I without requiring any contribution from the servicemembers. Also, this option assumes that, as in Option I, the Army offers a supplemental monthly payment equivalent to the \$12,000 kicker for high-quality recruits entering selected occupations.

When compared to Option I, costs would rise substantially, reaching \$720 million by 1996 (see Summary Table 3). Recruiting would improve under the program. But a greater number of separations from the service would also occur because of the larger number of persons participating in the program and because of their tendency to leave in order to use earned benefits. After adjusting for increased separations, the net gain in high-quality recruiting performance would range between -2 percent and 6 percent for the Army. Thus, it is conceivable that the adoption of Option II could be counterproductive for Army recruiting.

Option III. Enact a Two-tier Noncontributory Benefit
With Supplemental Payments

This approach responds to the concern over the previous options' tendency to increase separations. Option III doubles the monthly benefits, from \$225 to \$450, upon completion of six years' service. Such a higher "second tier" of benefits--which has been proposed in some bills before the Congress--is intended to encourage those contemplating leaving after their first term to reenlist. (The first term typically ends after three years' service for Army personnel.)

CBO finds, however, that doubling the basic benefit after six years' service reduces only modestly the incentive to separate after the first term and increases this incentive after six years' service. Thus, at least in the Army, Option III causes the same increase in separations as Option II. The net improvement in recruiting still ranges between about -2 percent and 7 percent. Therefore, the danger still exists that implementation of a program such as that described under Option III could have an overall adverse effect on Army quality recruiting performance.

In addition, because of the higher "second tier" of benefits, the long-run costs (reached by 1999) of Option III total \$1.1 billion a year, over 50 percent higher than those under Option II.

Option IV. Enact a Two-tier Noncontributory Benefit With
Supplemental Payments and Transferability

Option IV includes an additional provision to offset increased separations caused by educational benefits. The "transferability" feature of this option has been a concept favored by the military services and incorporated in most of the legislative proposals. Proponents argue that allowing servicemembers who remain on active duty to transfer their earned benefits to their spouses or college-age children would counter the tendency to separate.

Unlike the second-tier benefit, this transferability provision fully offsets the option's incentive to separate. Thus Option IV produces a net improvement in high-quality Army recruiting of between 4 and 15 percent. Yet as Summary Table 2 shows, the adoption of this provision would raise costs considerably. When compared to Option III, net long-run costs (reached in year 1999) would increase by about \$320 million, to \$1.4 billion a year.

Cash-out As a Cheaper Alternative to Transferability

While transferability does reduce separations, other less expensive alternatives may be available. For example, the Congress could allow a servicemember who reenlists, and who has earned educational benefits, to forgo all his educational entitlement in return for a portion of its cash value. This "cash out" might be more cost-effective than transferability. Permitting servicemembers who reenlist to receive 25 percent of the face value of their earned benefit in exchange for permanent loss of the entitlement would largely offset the incentive to leave. In the case of Army enlisted personnel, a 25 percent cash-out would cost about \$125 million annually. But this cost would eventually be offset by an estimated \$110 million annual savings in educational benefits forgone by those electing to cash out. Thus, in the long run, the net cost would be \$15 million annually, far below the \$108 million in costs for extending transferability to Army enlisted personnel.

OTHER ISSUES TO CONSIDER

Along with decisions about the type of any new educational benefit, the Congress may need to consider how to budget for educational benefits and whether other recruiting incentives should also be examined.

Accrual Budgeting for Educational Benefits

Educational benefit proposals represent a deferred benefit, in the same way that retirement benefits do. Thus, under the current pay-as-you-go system of accounting, the full cost of a proposal would not appear in the budget until many years in the future. If, for example, one of the options described in this report was implemented it would not incur costs until fiscal year 1985 and would not approach maximum outlays until at least ten years later. Thus, the temptation exists to disregard costs during the decisionmaking process.

Accrual budgeting would explicitly recognize, in the current budget, the liability incurred for future expenditures on educational benefits earned by today's military personnel. While no costs would occur in fiscal year 1983 on a pay-as-you-go basis, the charge to DoD under an accrual accounting system would approximate \$120 million for Option I and would increase to \$1.0 billion for Option IV.

Cost Effectiveness of Recruiting Incentives

The services, especially the Army, may need additional incentives as a hedge against future difficulties in attracting high-quality recruits. Yet enacting a noncontributory education benefit, such as those in Options II to IV, may not be the least costly way to attract more high-quality recruits. Expanding the recruiter force, or increasing cash enlistment bonuses, are two alternatives that could increase numbers of high-quality recruits at less cost.

This does not mean that improved educational benefits--especially if carefully designed--could not be cost-effective. Most forms of improved educational benefits are likely to be more cost-effective than across-the-board increases in basic pay, for example. Moreover, the Congress could improve the cost-effectiveness of educational benefits by targeting them on recruits in short supply and by establishing more restrictive eligibility standards than were typical of the Vietnam-era GI Bill. With these actions, educational benefits could compare favorably with other measures such as added recruiters and higher enlistment bonuses.

CHAPTER I. INTRODUCTION: THE NEED FOR ADDITIONAL INCENTIVES TO SUPPORT THE ALL-VOLUNTEER FORCE

The advent of the all-volunteer force brought widespread concern as to whether voluntary enlistments would provide the services with the quantity and quality of personnel they needed. To meet this concern, the Congress enacted significant military pay increases in 1980 and 1981. These raises not only improved recruiting directly; they also helped the services to retain career personnel and so lowered their demand for recruits. All the services met or exceeded their goals for numbers and quality of recruits in fiscal year 1981.

The question remains, however, whether the services--especially the Army--will continue to meet their recruiting needs over the decade of the 1980s. A number of factors, such as a turnaround in the favorable 1981 results, or a need for larger military forces or for personnel of higher qualifications, could intensify the recruiting problem again.

Additional recruiting incentives may be necessary. Whether a more generous military educational benefit should be among these incentives, especially in light of its potentially high cost, remains an issue actively debated within the Congress and the Administration. In recognition of the growing debate, this report examines the personnel and cost implications of a more generous military educational benefit.

The remainder of this chapter addresses recent and projected trends in recruiting and retention to assist the Congress in evaluating the need for additional incentives. Chapter II discusses problems with the Veterans' Educational Assistance Program (VEAP) implemented in 1977 and recent modifications to strengthen the program. Chapter III examines issues raised by the numerous bills intended to improve military educational programs; it also develops four options as a framework for evaluating the effects of educational benefits on costs and recruiting and retention. Chapter IV provides this evaluation, while Chapter V concludes with some other issues--such as benefits for the Selected Reserves--that the Congress might wish to consider.